

Message Text

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PAGE 01 BONN 04086 210903 Z

20

ACTION COME-00

INFO OCT-01 EUR-25 ADP-00 IO-12 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 SAL-01 SS-14 STR-08 OMB-01 CEA-02 CIAE-00

FRB-02 INR-09 NSAE-00 TRSE-00 XMB-07 OPIC-12 LAB-06

SIL-01 MBFR-03 SCEM-02 L-03 H-02 DODE-00 PA-03

USIA-12 PRS-01 PM-09 RSR-01 TAR-02 AGR-20 /203 W

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R 201746 Z MAR 73

FM AMEMBASSY BONN

TO SECSTATE WASHDC 3982

INFO AMCONGEN BREMEN

AMCONGEN DUESSELDORF

AMCONGEN FRANKFURT

AMCONGEN/ MUNICH 4172

AMCONGEN STUTTGART

USMISSION BERLIN

OECD PARIS 4918

USMISSION GENEVA

EC BRUSSELS 6078

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E. O. 11652: GDS

TAGS: ETRD, GW

SUBJECT: FOREIGN EXPORT AND DOMESTIC SUBSIDY PROGRAMS

REF: A. STATE 213677; B. BONN A14; C. STATE 32280

1. SUMMARY: THE EMBASSY HAS REVIEWED ITS SUBMISSION (REPAIR B) ON
FOREIGN EXPORT AND DOMESTIC SUBSIDY PROGRAMS AS HAVE THE CONGENS
AND

USMISSION BERLIN. OUR FURTHER INVESTIGATIONS HAVE UNCOVERED ONLY
A LIMITED AMOUNT OF NEW INFORMATION, WHICH IS PRESENTED BELOW
PLEASE ADVISE IF ADDITIONAL INFORMATION IS NEEDED ON SPECIFIC
POINTS. END SUMMARY.

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PAGE 02 BONN 04086 210903 Z

2. AFTER EXAMINING REPAIR B, CONGEN DUESSELDORF EMPHASIZED THAT "... COAL SUBSIDIES BY THE EC, THE FRG, AND THE LAND GOVERNMENT ARE IMPORTANT FOR THEIR IMPORT SUBSTITUTION EFFECT WITHIN THE FRG AND ALSO AS AN EXPORT SUBSIDY IN THE CASE OF OTHER EC COUNTRIES. COKING COAL TO BE USED IN MAKING STEEL, SOLD BY GERMANS FIRMS TO BUYERS IN OTHER EC COUNTRIES, IS SUBSIDIZED BY THE EC AND THE FRG. WHEN SOLD INSIDE GERMANY BY A NORTH RHINE- WESTPHALIA COMPANY, SUCH COAL IS SUBSIDIZED BY THE FRG AND THE LAND. COAL FOR USE IN POWER GENERATION IS ALSO SUBSIDIZED BY THE FRG AND THE LAND GOVERNMENT. BOTH LEVELS OF GOVERNMENTS SUBSIDIZED BY TH THE OPERATION OF RUHRKOHLE AG".

3. REPAIR B (PG. 4) CALLED ATTENTION TO THE TAX BENEFITS PROVIDED TO BERLIN AND AREAS ALONG THE FRG' S EASTERN BORDER. ACCORDING TO BERLIN' S 2031 (1972), THESE SUBSIDIES GENERALLY HAVE LITTLE EFFECT ON FOREIGN TRADE PATTERS. THERE ARE TWO EXCEPTIONS: GOVERNMENT CONTRACTS ARE AWARDED TO FIRMS IN " DISTRESSED AREAS" (BERLIN AND AREA NEAR GDR BORDER) IF " THEIR BIDS DO NOT EXCEED THOSE FROM OUT-SIDE AREAS BY MORE THAN A STIPULATED PERCENTAGE RANGING FROM 0.5 PERCENT FOR BIDS OVER DM 1,000,000 TO 6 PERCENT FOR BIDS UNDER DM 5,000". BERLIN- PRODUCED GOODS RECEIVE A TURNOVER TAX REBATE OF 6 PERCENT (IN ADDITION TO THE REFUND OF THE VALUE ADDED TAX ON ALL FRG EXPORTS) IF THE GOODS ARE CONSUMED OR FURTHER PROCESSED IN THE FRG. SOME VIEW THIS TAX REBATE SCHEME AS " A KIND OF EXPORT SUBSIDY, EXPECIALLY SINCE THE LAW WAS RELAXED TO PERMIT REBATE FOR GOODS SHIPPED TO AN FRG BRANCH OF THE BERLIN COMPANY FOR PROCESSING, WITH NO SALES DOCUMENTS EXCEPT FOR THE SUBSEQUENT EXPORT TRANS-ACTION. HOWEVER, STATISTICS ON BERLIN EXPORTS INDICATE ONLY A MINIMUM EFFECT FROM THIS DEVICE."

4. BERLIN' S 1987 (1972) AND BONN 2846 POINT OUT THAT CERTAIN LAENDER AND BERLIN PURSUE GOVERNMENT PROCUREMENT POLICIES THAT FAVOR GERMAN FIRMS. TO OUR KNOWLEDGE, THESE POLICIES DO NOT INDIRECTLY ENABLE THE NATIONAL PRODUCERS TO ENGAGE IN MARGINAL PRICING FOR EXPORTS, AS DESCRIBED IN REFTTEL C; BUT ANY DOMESTIC PREFERENCE OF THIS NATURE IS BOUND TO ENHANCE SOMEWHAT THE BENEFICIARY FIRM' S COMPETITIVE POSITION IN EXPORT MARKETS..

5. AFTER A CAREFUL REEXAMINATION OF THE TWO MAJOR GERMAN AIRCRAFT PROJECTS -- THE VFW 614 AND THE AIRBUS-- THE FRG HAS DECIDED TO CONTINUE SUPPORT ACTIVITIES WHICH MOST RECENTLY HAVE TAKEN THE FORM OF LOAN GUARANTEES. ACCORDING TO PRESS REPORTS, THE FRG GUAARANTEE

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PAGE 03 BONN 04086 210903 Z

CEILING FOR THE CONSTRUCTION OF THE SHORT- RANGE VFW 614 HAS BEEN INCREASED BY DM 50 MILLION TO DM 205 MILLION. THE SAME SOURCE REPORTS THE GERMAN GOVERNMENT' S DECISION IS INCREASE THE GUARANTEE CEILING FOR THE AIRBUS PROJECT. WHILE NEITHER OF THESE AIRCRAFT ARE, AT PRESENT, DIRECTLY COMPETITIVE WITH US PRODUCTS, THERE IS LITTLE DOUBT THAT THEIR SALE ON THE WORLD MARKET WOULD BE LIKELY TO DISPLACE AMERICAN AIRCRAFT. ON THE OTHER HAND, AMERICAN ORIGIN EQUIPMENT HAS PLAYED A SIGNIFICANT ROLE IN BOTH PROJECTS. FOR EXAMPLE, US FIRMS HAVE PROVIDED COMPONENTS-- INCLUDING ENGINES-- VALUED AT ROUGHLY 18 PERCENT OF THE AIRBUS SALES PRICE. SEE BONN' S A-1101 (1972) AND A-120 FOR FURTHER DETAILS.
HILLENBRAND

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts:
Control Number: n/a
Copy: SINGLE
Draft Date: 20 MAR 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973BONN04086
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: n/a
Errors: n/a
Film Number: n/a
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730334/aaaaicow.tel
Line Count: 135
Locator: TEXT ON-LINE
Office: ACTION COM
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: A. STATE 213677; B. BONN A14; C. STATE 32280
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags:
Review Date: 30 JUL 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <30-Jul-2001 by willialc>; APPROVED <06-Sep-2001 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> srp 971217
Subject: FOREIGN EXPORT AND DOMESTIC SUBSIDY PROGRAMS
TAGS: ETRD, GW
To: COME
SECSTATE WASHDC INFO BREMEN
FRANKFURT
MULTIPLE
USBERLIN
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

